

ELLIOTT & ELLIOTT, P.A.  
ATTORNEYS AT LAW  
721 OLIVE STREET  
COLUMBIA, SOUTH CAROLINA 29205  
[selliott@elliottlaw.us](mailto:selliott@elliottlaw.us)

SCOTT ELLIOTT

TELEPHONE (803) 771-0555  
FACSIMILE (803) 771-8010

December 8, 2004

VIA HAND DELIVERY

PSC

Attn: Docketing Dept.

P. O. Drawer 11649

Columbia, SC 29211

RE: Application of Development Service, Inc., for approval of a  
New Schedule of Rates and Charges for Sewage Service provided  
to Residential and Commercial Customers in all areas served.

Docket No.: 2004-212-S

Dear Sir/Madam:

Enclosed are the original and twenty-five copies (25) copies of the **Testimony of Keith G. Parnell** filed on behalf of Development Service, Inc. in the above referenced docket. By copy of this letter, I am serving all parties of record.

I have enclosed an extra copy of this testimony which I would ask you to date stamp and return to me by my courier.

If you have questions or need additional information, please do not hesitate to contact me.

Sincerely,

Elliott & Elliott, P.A.



Scott Elliott

SE/jcl

Enclosures

c: All parties of records w/enc.

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**THE PUBLIC SERVICE COMMISSION  
OF  
SOUTH CAROLINA**

**DOCKET No.: 2004-212-S**

**Application of Development Service, Inc. for  
Approval of New Schedule of Rates and Charges  
for Sewage Service provided to Residential and  
Commercial Customers in all areas served.**

**PREFILED DIRECT TESTIMONY**

**OF**

**KEITH G. PARNELL**

**December 8, 2004**

RETURN DATE: OK D. Werts  
SERVICE: OK D. Werts

1 **Q. Please state your name, business address and your affiliation with the**  
2 **applicant Development Service, Inc. (DSI).**

3 A. Keith G. Parnell, P. O. Box 1730, Lexington, South Carolina 29071. I am the  
4 President and Operations Manager for Development Service, Inc., which I will refer to in  
5 my testimony as DSI.

6 **Q. Please describe your educational and professional background.**

7 A. I graduated from the University of South Carolina with a B.S. Degree in Civil  
8 Engineering in 1981 and obtained a Masters from U.S.C. in Water Resource Engineering  
9 in 1983. I was employed as an engineer from 1983 to 1985 by the United States Naval  
10 Facilities Engineering Command. From 1985 through 1990, I practiced civil engineering  
11 for B.P. Barber Company in Columbia, South Carolina. I am also currently registered as  
12 a Professional Engineer by the State of South Carolina. In 1990, I began working for DSI  
13 where I have since worked as Operations Manager.

14 **Q. Please describe the service and customer base of Development Service, Inc.**

15 A. DSI is a privately owned sewer company in Richland County. It is a closely held  
16 South Carolina corporation with operations in the Dutch Square area. We provide sewer  
17 services to 67 commercial customers and 66 residential customers as a collection system  
18 only. Sewerage collected by DSI is treated by Bush River Utilities, Inc. (Bush River) at  
19 its wastewater treatment facility.

20 **Q. Please describe more fully the relationship of Bush River and DSI as relates**  
21 **to the company's operations.**

22 A. As a collection system only, DSI collects wastewater and transmits it through its  
23 collection system to Bush River which treats the wastewater prior to discharge and

1 disposal. As authorized by the South Carolina Public Service Commission (Commission)  
2 in Order Number 96-44, Docket Number 94-727-S, dated January 19, 1996, Bush River  
3 charges DSI a monthly "wholesale rate" for treatment of DSI's wastewater. The monthly  
4 cost of treatment charged by Bush River represents DSI's primary operating expense.  
5 We have maintained equality of rates between DSI and Bush River so that customers of  
6 Bush River and DSI are charged similar rates for similar services. As Bush River goes,  
7 so does DSI.

8 **Q. Mr. Parnell, please describe the ownership and method of operation for DSI**  
9 **and Bush River.**

10 A. My brother C. Ken Parnell and I own DSI and Bush River. Bush River also  
11 operates a sanitary sewer system which owns and operates a wastewater treatment facility  
12 in Lexington County. In addition, we own Midlands Utility, Inc. (Midlands). Midlands  
13 also owns and operates wastewater treatment facilities in Richland, Lexington, Fairfield  
14 and Orangeburg Counties. Each of the three companies is a public utility regulated by the  
15 Commission. We purchased all three companies from our parents and operate them  
16 under a common staff, borrowing of assets and equipment, and a pledging of all assets to  
17 obtain necessary financing.

18 **Q. Please relate the facts and circumstances leading up to this application before**  
19 **the South Carolina Public Service Commission.**

20 A. As a public utility, Bush River is under the jurisdiction of this Commission.  
21 However, the South Carolina Department of Health and Environmental Control (DHEC)  
22 also has authority over Bush River since it regulates its wastewater discharges into the  
23 Saluda River. DHEC has ordered Bush River to construct an upgrade to its wastewater

1 treatment facility at an estimated cost of approximately \$1,012,000. In addition,  
2 Midlands has also been required by DHEC to upgrade three of its wastewater treatment  
3 facilities. We see this as an opportunity to modernize not only our wastewater treatment  
4 facilities but also our operations. By making the necessary improvements to our system,  
5 we will streamline operations, eliminate unnecessary costs and improve service to our  
6 customers. Because of the tremendous cost of upgrading our facilities in compliance  
7 with DHEC requirements, we must borrow the necessary construction costs.  
8 Accordingly, Bush River, DSI and Midlands have applied for and obtained financing  
9 from BB&T in the amount of \$2,021,400 to upgrade and modernize our plants. In  
10 addition, my brother Ken Parnell and I have pledged our assets to guarantee repayment of  
11 this loan. The loan funds will be advanced only when and if this Commission approves  
12 the rate increases necessary to service the debt.

13 **Q. Does DSI have any specific upgrades to its sewer system other than the**  
14 **related costs reflected in the exhibits to the application?**

15 A. No.

16 **Q. What is the nature of the permitting requirements for DSI as the same**  
17 **relates to DHEC requirements?**

18 A. DSI is not a permitted facility; however it operates under a Satellite Sewer System  
19 applied for with DHEC. It is however considered to be property permitted as a collection  
20 only utility.

21 **Q. Will DSI have sufficient revenue to meet the necessary increases in its**  
22 **operating costs without a rate increase?**

1 A. No. DSI operates today at a loss and would in any event require a rate increase in  
2 a fair and reasonable amount not withstanding the added costs and expense necessitated  
3 by compliance with the DHEC order.

4 **Q. The application requests rate increases to be implemented in two stages.**  
5 **Please explain.**

6 A. DSI's last rate increase was approved on January 19, 1996, and was based on the  
7 level of operating expenses experienced in 1994, the test year. In addition to the  
8 increased operating costs experienced in the proceeding ten years, DSI will incur  
9 additional cost and expense associated with the increased cost of treatment charged by  
10 Bush River resulting from Bush River's construction of its wastewater treatment facility  
11 improvements. These additional costs together with current operating losses necessitate  
12 the first stage rate increase. The second stage increase in rates will be required upon  
13 completion of Bush River's construction to permit DSI to pay the resulting increase in  
14 operating costs which include its share of interest, principal repayment and depreciation  
15 for the three companies.

16 **Q. Mr. Parnell, please describe the details of the loan earlier referred to in your**  
17 **testimony.**

18 A. DSI, Bush River and Midlands have entered into a loan which closed in April of  
19 2004. In order to borrow the necessary funds, all three companies' assets were pledged  
20 together with the personal guarantee by my brother and me. Approximately \$80,000 was  
21 expended for the purpose of paying for appraisals, surveys, abstracts, origination fees and  
22 related legal fees. The real estate mortgaged is primarily owned by Bush River and

1 Midlands and located in the counties of Richland, Lexington, Fairfield and Orangeburg.

2 The lender is Branch Banking & Trust Company (BB&T) and the loan totals \$2,021,400.

3 **Q. What are the interest provisions and repayment conditions?**

4 A. The loan is scheduled to be repaid 60 months from April 8, 2004, through the  
5 same date in 2009. The loan has a repayment amortization of 15 years with a balloon  
6 payment due at the maturity of the five years. Interest is currently 5.4%. The loan has an  
7 interest collar with a floor rate of 4.65% and a ceiling of 7.70%. The bank allowed us  
8 to receive about \$50,000 as an advance toward closing costs. Any further advances are  
9 restricted depending upon whether the respective companies obtain necessary rate  
10 increases from the Commission.

11 **Q. Mr. Parnell, are you familiar with each of the exhibits filed with DSI's rate**  
12 **application?**

13 A. Yes. I have personally been involved with the preparation of the information in  
14 each exhibit and those which were not directly prepared by me were prepared under my  
15 supervision.

16 **Q. Mr. Parnell, are the expenses, revenue and adjustments to operating**  
17 **expenses as exhibited in the application of DSI in this docket accurate?**

18 A. Yes, they are.

19 **Q. Do you consider the proposed new rates fair and reasonable?**

20 A. Yes. I believe that the proposed rates will generate sufficient revenues for the  
21 company to meet its expenses and provide a reasonable return to the owners of the  
22 company. I also believe that the revised rates are fair and reasonable to our customers in

1 light of the increasing regulatory and environmental pressures which sewer companies  
2 are subjected to these days.

3 **Q. Mr. Parnell, do you believe that the proposed two-stage rate increases are**  
4 **just, fair and reasonable to all of DSI's customers?**

5 A. Yes, I do. Should this Commission decline to increase the rates in stages, the  
6 ultimate rates requested are fair and reasonable to our customers, eliminate our operating  
7 losses and provide a reasonable return to our company.

8 **Q. Does this conclude your testimony?**

9 A. Yes.

10

11



## CERTIFICATE OF SERVICE

The undersigned employee of Elliott & Elliott, P.A. does hereby certify that she has served below listed parties with a copy of the Testimony of Keith G. Parnell on behalf of Development Service, Inc., indicated below by mailing a copy of same to them in the United States mail, by regular mail, with sufficient postage affixed thereto and return address clearly marked on the date indicated below:

RE: Application of Development Service, Inc., for approval of new schedule of rates and charges for sewage service provided to residential and commercial customers in all areas served.  
Docket No. 2004-212-S

PARTIES SERVED: F. David Butler, Esquire  
SC Public Service Commission  
P. O. Drawer 11649  
Columbia, SC 29211

Florence P. Belser, Esquire  
Office of Regulatory Staff  
P.O. Box 11263  
Columbia, SC 29211

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SC PUBLIC SERVICE  
COMMISSION

  
Jackie C. Livingston

December 8, 2004